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SUBJECT: NIGERIA: U.S. HOUSING COMPANY TRACKS DEVELOPMENTS IN
HOUSING

Ref: A) Lagos 353
B) Lagos 255
C) Lagos 254

11. (SBU) Summary: According to a U.S. Company working in Nigeria's housing sector, the recent downturn in the Nigerian capital market has funneled money into land in Lagos, where land prices in key areas doubled between April and August. Nigerian banks are unable to handle mortgage loans; most offer only three to five year construction loans at 25 percent interest; and delinquencies can be as high as 11 percent. Securitization and non judicial foreclosure bills are stalled in the National Assembly. This U.S. company is trying to securitize banks' mortgage loans and sell them to international investors, at best a difficult strategy in today's market. End Summary.

Stock Market Decline Inflate Real Estate Bubble

12. (SBU) Mike Williams, Chairman of TransAtlantic, a U.S. company that specializes in development, construction, and financing of large scale residential housing projects, told CommercialCouns and EconOff September 11 that the recent stock market downturn and increasing demand for housing had further fueled the real estate bubble in Lagos (Ref A). According to Williams, the adoption of anti-money laundering legislation had resulted in "funny money" being channeled away from banks and into the stock and real estate markets, leading to the explosion of share prices and the real estate boom observed in recent years. Given the 30 percent loss in market capitalization since March, more money had been flooding out of investments in stocks and into real estate, resulting in a doubling of Lagos property values within a six month period. A 100 hectare property on the Lekki Peninsula (the booming residential and commercial suburb of Victoria Island) valued at Naira 700 to 900 million (USD 6 to 7.5 million) in April had doubled in price by August, Williams said. In addition to offering land owners twice the value of their land, local developers are offering them a 30 to 40 percent equity stake in the development project, deals that U.S. companies like TransAtlantic cannot match. To offset the costs, developers inflate property prices for willing homebuyers.

Lagos Land Ownership in Hands of Few "Big Men"

13. (SBU) Williams believes the concentration of land "ownership" in the hands of a few political godfathers in Lagos State had led to an exaggerated scarcity of supply in land, which further added to the explosion in real estate value. Williams learned from his contacts that former Governor Tinubu and the Oba of Lagos together own about 20 percent of property on the highly-coveted Victoria Island and Lekki Peninsula. He believes that generally land owners have a trader mentality of hoarding a scarce product and selling it for the highest price to developers. However, they either are not cognizant of or do not buy into the idea of increasing their property value through investment in infrastructure development. According to Williams, the primary task for the current Lagos State Governor is to get land owners to invest in the state's decaying infrastructure.

Eleven Percent Delinquency Rate on Bank Mortgages

14. (SBU) Nigeria's mortgage banks and firms are for the first time looking to off-load their mortgage lending portfolios. This is due to the recent downturn in the capital market and a general loss of confidence in the banking industry in the past year, Williams said. Some banks have been managing mortgage portfolios valued around Naira 50 billion (USD 400 million), and the delinquency rate might be as high as 11 percent for some of these mortgage programs.

15. (SBU) TransAtlantic is working with a few major mortgage banks and firms on an exit strategy, helping to restructure their loans or securitize them so they can be sold as bonds. The company was scheduled on September 11 to sign a contract with two local mortgage

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banks to securitize Naira 90 billion (USD 770 million) of mortgages and to sell them as bonds to international hedge funds and investment firms. (Note: EconOff was unable to confirm with Williams whether the contracts were signed. End Note)

16. (SBU) Williams said local mortgage banks are unable to handle mortgage lending; at the very best, some had been able to offer three to five years short-term loans for construction projects at a ramped-up 25 percent interest rate. Most of these construction projects have gone sour, he noted, and banks have become increasingly reluctant to offer construction loans. He continued by emphasizing that the gap between available finance for construction and residential mortgages was impeding overall housing development.

Securitization, Foreclosure Bills Stalled

17. (SBU) Williams said a bill that would provide the legal framework for securitization of mortgages and establish a system of non-judicial foreclosures in the event of mortgage defaults had not passed the third reading in the National Assembly and would likely not be taken up again. TransAtlantic had been working with the National Assembly since 2006 on new legislation and policy reforms for the housing and mortgage sector. These bills have fallen by the wayside with the substantial change in leadership that came with the 2007 election, he lamented.

18. (SBU) As a result, Williams said, his company is placing less effort on influencing federal policy reforms for a more localized, geopolitical approach. TransAtlantic is partnering with state governments on commercial and residential development projects. In some cases, state governments could gain equity in projects through land contribution. Williams believes that demonstrated successes on these projects at the state level would influence policy change at the national level.

19. (SBU) Comment: The effects of the financial crisis on Nigeria's banking and financial sector are still being assessed and debated. Given the current credit environment, it is doubtful whether any international hedge fund managers and investment firms would buy Nigerian mortgage-backed securities. End Comment.

110. (U) This cable has been cleared with Embassy Abuja.

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